T. Y. B.COM.

SUBJECT: MANAGEMENT ACCOUNTING – 2

TOPIC – STANDARD COSTING

PREPARED BY: DR. VINOD B. MOVALIYA

STANDARD COSTING

- **DEFINITION**

Cecill Gillespie, “predetermined operating cost computed to reflect specified quantities, prices and level of operation.”

- **According to CIMA (England),**

Standard Costing is defined as, “preparation and use of standard costs, their comparison with actual costs and analysis of variances into their causes and points of incidences.”

OBJECTIVES OF STANDARD COSTING

- **To Establish Control:**
- **To Set Standards for Various Elements of Cost:**
- **To Fix Responsibility:**
- **To Make Budgetary Control More Effective:**

MERITS OF STANDARD COSTING

- Elimination of the weakness of Historical Costing
- High Lighting of Variances
- Inexpensive Operations
- Incentive Schemes
- Facilitate Comparison
- Quicker Reporting
- Production and price policies
- Promotes Efficiency
- Basis of Stock Valuation
- Basis of Inventory Valuation
- Cost Consciousness
- Useful for Tenders
- Co-operation and Co-ordination
- Saving in Cost

LIMITATION OF STANDARD COSTING

- Determination by the Experts
- Necessity of Budgetary Control
- Determination of Standard Cost is Difficult in this age of Inflation
- Unsuitable in some Industries
- Moral of Employees Lowered
- Controllable and Uncontrollable Variances
- Lake of reliable standards
- Duplication

STANDARD COSTING AND BUDGETARY CONTROL

	Standard Costing	Budgetary Control
1	Standard Costing deals with standards of cost of each product and for each elements of cost.	Budgetary Control determines target for various departments.
2	Standard Costing is intensive.	Budgetary Control is extensive.
3	Standard Costing is limited to the production function and cost of production is sought to be covered by it.	Budgetary Control are usually prepared not only for production function but all activities and functions of business such as production, sales, purchases, capital expenditure etc.
4	Standard Costing fixes standard for expenses.	Budgetary Control covers both expenditure and income.
5	Standard Costing fixes the targets which are attainable. Thus, it shows the extent to which costs can be reduced.	Budgetary Control fixes the limits of expenses, beyond which the expenses should not rise.
6	In Standard Costing, Variances whether favourable or unfavourable are investigated.	Budgetary Control techniques looks into the matter only when expenses exceed the budgeted figures.
7	In Standard Costing, Variances are analysed through various accounts to which they relate.	In Budgetary Control, variances are revealed in total.
8	Standard Costing takes recourse to technical assessment. It determines scientifically what the cost of output ought to be.	Budgetary Control are generally based on past figures adjusted for future trends.

STANDARD ABSORPTION COSTING AND STANDARD MARGINAL COSTING

- STANDARD ABSORPTION COSTING
- STANDARD MARGINAL COSTING

STANDARD SETTING

- **Type of Standard**
  - **Ideal Standard**
  - **Normal Standard**
  - **Basic Standard**
  - **Expected Standard**
  - **Historical Standard**
- **Length of the period of use**
- **Attainment Level**

SETTING OF STANDARDS

- **DIRECT MATERIAL**
- **DIRECT LABOUR**
- **FACTORY OVERHEAD STANDARDS**

COMPUTATION OF VARIANCES
MATERIAL VARIABCES

SR.NO.	NAME OF VARIANCES	FORMULA OF VARIANCES
1.	Material Cost Variance	(SQ x SP) – (AQ x AP)
2.	Material Price Variance	AQ (SP – AP)
3.	Material Usage Variance	SP (SQ – AQ)
4.	Material Mix Variance	• SM and AM quantity are equal. SP (SM – AM)
		• SM and AM quantity are equal. SP (RSM – AM)
5.	Material Yield Variance	SC (AY – SY)
6.	Material Sub-Usage Variance	SP (SM – RSM)

COMPUTATION OF VARIANCES
LABOUR OR WAGES VARIANCES

SR.NO.	NAME OF VARIANCES	FORMULA OF VARIANCES
1.	Labour Cost Variance	(SH x SR) – (AH x AR)
2.	Labour Rate Variance	AH (SR – AR)
3.	Labour Efficiency Variance	SR (SH – AH)
4.	Labour Mix Variance	SR (RSH – AH)
5.	Labour Yield Variance	SC (AY – SY)
6.	Revised Labour efficiency Variance	SR (SH – RSH)

COMPUTATION OF VARIANCES
OVERHEAD VARIANCES

SR.NO.	NAME OF VARIANCES	FORMULA OF VARIANCES
1.	Variable Overhead Variance	(SR x AP) – AC
2.	Variable Overhead Expenditure Variance	AH (SR – AR)
3.	Variable Overhead Efficiency Variance	SR (SH for AP – AH)
4.	Fixed overhead Variance	(AP x SR) – AC
5.	Expenditure Variance / Budget Variance	BC - AC
6.	Fixed Overhead Volume Variance	SR (AQ– BQ)
7.	Fixed Overhead Efficiency Variance	SR (AQ – RSQ)
8.	Fixed Overhead Capacity Variance	SR (RSQ – BQ)
9.	Fixed Overhead Calendar Variance	SR (RBQ – BQ)

COMPUTATION OF VARIANCES
SALES VARIANCES

SR.NO.	NAME OF VARIANCES	FORMULA OF VARIANCES
1.	Sales Value Variance	(AQ x AP) – (SQ x SP)
2.	Sales Price Variance	AQ (AP – SP)
3.	Sales Volume Variance	SP (AQ – SQ)
4.	Sales Mix Variance	• SM and AM quantity are equal. SP (AM – SM)
		• SM and AM quantity are equal. SP (AM – RSM)
6.	Sales Sub-Usage Variance	SP (RSM – SM)